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Nos. 86-495, 86-624, and 86-625

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
Petitioner
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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BRIEF FOR PETITIONER 47TH STREET PHOTO, INC.

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QUESTIONS PRESENTED

1. Whether the Court of International Trade has exclusive jurisdiction over actions against the Customs Service challenging regulations that interpret a statutory prohibition against the importation of trademarked merchandise.

2. Whether the Customs Service's 1972 published regulations interpreting Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, consistently with Customs' interpretation of that Act since the mid-1930's, is a valid administrative construction of the statute.

PARTIES TO THE PROCEEDING

47th Street Photo, Inc. has no parent, subsidiary or affiliated companies. The parties before the Court of Appeals were Coalition to Preserve the Integrity of American Trademarks, Plaintiff; Cartier, Inc., Plaintiff; Charles of Ritz Group, Ltd. (a subsidiary of Squibb Corporation), Plaintiff; United States of America, Defendant; James A. Baker III, Secretary of the Treasury, Defendant; William von Raab, Commissioner of Customs, Defendant; 47th Street Photo, Inc., Defendant-Intervenor; K mart Corporation, Defendant-Intervenor.

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OPINIONS BELOW

The opinion of the court of appeals is reported at 790 F.2d 903 (Gov't Pet. App. 1a-32a). The opinion of the district court is reported at 598 F. Supp. 844 (Gov't Pet. App. 34a-38a).

JURISDICTION

The decision of the court of appeals was issued on May 6, 1986. On July 18, 1986, the court of appeals denied a timely petition for rehearing. The petition for a writ of certiorari in No. 86-495 was filed on September 26, 1986, and the petitions in Nos. 86-624 and 86-625 were filed on October 16, 1986. The writs were granted and the cases consolidated for argument on December 8, 1986. 107 S. Ct. 642. The jurisdiction of this Court rests on 28 U.S.C. § 1254.

STATUTES AND REGULATIONS INVOLVED

The relevant statutes and regulations, Section 201 of the Customs Court Act of 1980, 28 U.S.C. § 1581, Section 526(a) of the Tariff Act of 1930, 19 U.S.C. § 1526(a), and 19 C.F.R. § 133.21 (37 Fed. Reg. 20678 (1972), appear in an Appendix to this brief at pp. 1a-3a, *infra*.

STATEMENT

Introduction

Foreign manufacturers of consumer goods such as cameras and watches frequently seek to sell their products at significantly higher prices in the United States than in foreign markets. The merchandise is authentic and identical in both American and foreign markets, and it bears the same authorized trademark. But by establishing a subsidiary American corporation, assigning to it the U.S. trademark, and granting it exclusive American distribution rights, the foreign manufacturer attempts to limit the flow of his products to the United States and thereby to maintain higher prices here than in Europe or in the Far East.

For at least fifty years, the Customs Service has permitted the importation into the United States of authentic trademarked goods manufactured abroad if the American trademark owner is a subsidiary or parent of the foreign manufacturer of the goods. This practice of "parallel importation" or "gray market importation" has benefited American consumers by bringing prices for such goods in line with those charged in foreign markets.

Three lawsuits against the Customs Service were initiated in federal courts in early 1984 by parties interested in prohibiting parallel or gray market imports. The first was brought in January 1984 in the Court of International Trade by Vivitar Corporation. The second was this case, initiated in the District Court for the District of Columbia in February 1984 by an *ad hoc* trade association formed, for the purpose of stopping parallel importation, by American subsidiaries or parents of companies manufacturing trademarked goods abroad. The third lawsuit was brought in the Eastern District of New York in March 1984 by Olympus Corporation, an American subsidiary of a Japanese manufacturer of photographic and optical products.

1. Rulings on Jurisdiction

The government moved to dismiss the case brought by Vivitar in the Court of International Trade on the ground that the Court lacked jurisdiction. On April 4, 1984, the Court of International Trade denied the government's motion to dismiss. *Vivitar Corp. v. United States*, 585 F. Supp. 1419 (CIT 1984). The Court of Appeals for the Federal Circuit sustained the jurisdictional ruling. *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985). The jurisdictional issue was not raised in Vivitar's petition for a writ of certiorari. *See* Petition for a Writ of Certiorari, *Vivitar Corp. v. United States*, No. 85-411, *cert. denied*, —— U.S. ——, 106 S. Ct. 791 (1986).

Two district courts subsequently disagreed with the jurisdictional ruling of the Court of International Trade. *COPIAT v. United States*, 598 F. Supp. 844, 847 (D.D.C.

1984); *Olympus Corp. v. United States*, No. CV-84-0920, Order of November 15, 1984 (reproduced as Appendix B to our Petition for Writ of Certiorari). *See* 627 F. Supp. 911, 914. The District of Columbia and Second Circuits affirmed the jurisdictional rulings of the district courts. *COPIAT v. United States*, 790 F.2d 903, 905-907 (D.C. Cir. 1986); *Olympus Corp. v. United States*, 792 F.2d 315, 317-319 (2d Cir. 1986), Petition for Writ of Certiorari pending, No. 86-757.

2. Rulings on the Merits

In all three trial courts, the plaintiffs contended that the Customs Service had issued regulations in 1972 that violated Section 526 of the Tariff Act of 1922, as re-enacted in the Tariff Act of 1930. All three trial courts dismissed the complaints, rejecting the challenge to the Customs Service regulations. Judges Restani (Court of International Trade), Johnson (District of Columbia), and Sifton (Eastern District of New York) ruled that the 1922 Congress intended only to protect independent American businesses, not affiliates of the foreign producers of trademarked goods.

The appellate courts arrived at differing conclusions. The Court of Appeals for the Federal Circuit held that the regulations were "a reasonable exercise of administratively initiated enforcement" (761 F.2d at 1571). The second federal appellate decision was the ruling of the court of appeals in this case. The court below held that the challenged Customs regulations conflict with Section 526 of the Tariff Act and are, therefore, unlawful. The third federal appellate ruling was issued by the Court of Appeals for the Second Circuit in *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986). By a 2-to-1 vote, the Second Circuit disagreed with the D.C. Circuit's ruling in the present case. The Second Circuit held that Congress' knowing acquiescence in the "consistent policy" followed by Customs amounted to legislative ratification of the agency's interpretation.

INTRODUCTION AND SUMMARY OF ARGUMENT

In 1922 Congress enacted Section 526 of the Tariff Act—a law that gave an "owner" of a trademark registered in the United States Patent Office the right to bar the importation of any merchandise bearing that trademark—even if the mark had been lawfully affixed in the country of manufacture. The law limited that statutory right to "owners" who are both citizens and domiciliaries of the United States. Foreign citizens or domiciliaries were deliberately given no equivalent rights. It is undisputed, therefore, that if an American trademark is "owned" by a foreign national or domiciliary or by a foreign corporation, that "owner" has no authority under the 1922 statute to exclude authentic goods bearing the trademark from the United States.

The central legal issue in this case is whether the right to exclude conferred by the 1922 law extends to corporate "owners" who, albeit technically "created or organized" in the United States, are actually controlled by foreign corporations. Does the statutory word "owned" mean that the Executive Branch agency administering the law may not look beyond the formality of corporate "ownership" in effectuating Congressional intent?

Whether a foreign corporation could avoid the requirements of Section 526 by establishing a U.S. subsidiary to control distribution here was not explicitly addressed by the Commissioner of Customs—who was empowered to administer the provisions of the Tariff Act—until 1936. At that time, Customs issued a regulation explicitly invoking Section 526, and declaring that the bar on importation was not to apply if the owner of the foreign trademark and the owner of the American trademark are "the same person, partnership, association or corporation."

This policy controlled the importation of trademarked goods through the 1950's and the 1960's. Customs decisions and official correspondence confirm that "for many years" the agency had been permitting parallel importation of authentic trademarked goods if the foreign manu-

facturer was the parent or subsidiary of the American trademark owner. And in 1970, the Customs policy was incorporated into formal regulations that were published for public comment and were issued in final regulatory form on October 3, 1972. The validity of those regulations is challenged in this lawsuit, which was instituted twelve years after adoption of the regulations.

We believe that the Customs Service's interpretation of Section 526, as incorporated in the 1972 regulations, is the correct construction of the law. It gives substance and real meaning to the concept of American "ownership" of trademarks that Congress deliberately included in Section 526. It is most consistent with the reasons why Section 526 was hurriedly drafted and enacted in 1922—to protect American businesses from fraud"—while otherwise permitting price competition that benefits consumers.

1. The court of appeals erroneously believed that Section 526, if read "literally," invalidates the Customs regulations. In fact, the "literal" terms of Section 526 require that a corporate "owner" and registrant of the American trademark rights both be "created or organized within the United States" and be "domiciled in the United States." Whether an American distribution subsidiary of a multi-national foreign corporation satisfies these criteria is not resolved by the "literal" terms of the law. Indeed, if these statutory requirements are not to be nugatory in practice, they must require something more than the creation by a foreign corporation of an American shell that becomes the nominal holder of American trademark rights.

2. It is well established by decisions of this Court that "great weight" must be given "to any reasonable construction of a regulatory statute adopted by the agency charged with the enforcement of that statute." *Clarke v. Securities Industry Ass'n*, —— U.S. ——, 107 S. Ct. 750, 759 (1987), *quoting Investment Company Institute v. Camp*, 401 U.S. 617, 626-627 (1971). It is undisputed that the Customs Service has applied its in-

terpretation of Section 526 at least since 1972. Customs decisions and correspondence indicate that the same policy was also applied in the 1950's and 1960's, and was even then viewed as a rule that had been in effect "for many years." The court of appeals erroneously minimized these pervasive indicia of a longstanding Customs interpretation of Section 526. Neither the court below nor the plaintiffs can point, however, to a single time when Customs issued a regulation or public decision supporting their reading of Section 526.

3. Customs' policy was well-known to Congress on occasions when Congress was considering various amendments to the customs laws. A House Report issued in 1977 declared that Customs had "consistently interpreted" Section 526 "for the past 20 years" as inapplicable when the foreign trademark is affixed with the authority of the American trademark owner. Congress chose in 1978 not to amend Section 526 to change Customs policy, even though it enacted many amendments in the Customs Procedural Reform and Simplification Act. Similarly, a more recent Congress, in enacting the Trademark Counterfeiting Act of 1984, left Section 526 intact after being told by the Senate Judiciary Committee that parallel importation would not be affected because Customs "has long interpreted Section 526 . . . to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control." These are compelling indications of Congressional acquiescence in the Customs Service's interpretation of Section 526 and require judicial confirmation of that construction.

4. Although questions of economic policy are for Congress, and not for this Court, to decide, it is relevant to note that Customs' interpretation implements sound economic policy that is consistent with the policies followed by nearly all economically developed nations. The court of appeals acknowledged that its reading of Section 526 "would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their Ameri-

can subsidiaries" and that since America's trading partners do not forbid parallel imports, the court's reading of Section 526 "in today's international market constitutes a sort of economic unilateral disarmament." 790 F.2d at 917 (Gov't Pet. App. 30a-31a). These highly undesirable consequences should not be cavalierly inflicted on American consumers and on truly independent American businesses competing in the international marketplace, particularly where the Executive Branch has regularly followed a course that protects American consumers and American businesses, and Congress has deliberately decided not to interrupt or otherwise interfere with that administrative practice. Moreover, the court below erred in assuming that the Customs practice rested exclusively or largely on its understanding of domestic antitrust policy, which has undergone change in recent years. Antitrust policy was a very minor factor in the Customs Service's administration of Section 526, and, even as recently modified, antitrust principles would not support the system that the plaintiffs seek to impose: a government-enforced two-tiered pricing system designed to protect the profit margins of selected retailers and to ensure maximum off-shore profits for multi-national corporations.

5. Although the court of appeals did not reach the question whether the Customs regulations are consistent with the Lanham Act, as the district court found, trademark principles strongly support the Customs Service regulations. Section 42 of the Lanham Act protects trademark owners against goods bearing trademarks that "copy or simulate" their marks, not against the sale of genuine goods marked by the registered trademark owner or with his authority. The Congress was fully and explicitly informed of Customs' policy when it enacted the Lanham Act and made no effort to alter that policy in any way.

6. Before discussing the merits of the statutory issue, we address a preliminary legal question that alternatively supports the district court's judgment of dismissal. The claim made by the plaintiffs in this case is, by rea-

son of the Customs Court Act of 1980, assigned to the exclusive jurisdiction of the Court of International Trade. A comprehensive "residual" subsection of the jurisdictional assignment to that specialized court directs to it all cases against the United States involving "embargoes or other quantitative restrictions" on importation. Since Section 526 imposes an "embargo" or "other quantitative restriction" on the importation of trademarked goods, suits to enforce a claimed right under Section 526 come within the "catch-all" provision. Such suits are also corollary to the Court of International Trade's jurdisdiction over the denial of protests under Section 515 of the Tariff Act of 1930. By recognizing exclusive jurisdiction over such claims in the Court of International Trade, this Court will prevent multiplicity of actions, forum-shopping, and the kind of uncertainty over the appropriate forum that led to the 1980 enactment of the Customs Court Act.

ARGUMENT

I. THE COURT OF INTERNATIONAL TRADE HAS EXCLUSIVE JURISDICTION OVER THIS ACTION AGAINST THE UNITED STATES

The Customs Court Act of 1980, 28 U.S.C. § 1581, confers exclusive jurisdiction over trade-related cases on the Court of International Trade ("CIT"), from which appeals may be taken to the Court of Appeals for the Federal Circuit. The district courts are divested of jurisdiction over any action which this statute assigns to the CIT. Legal issues identical to those presented in this case have been litigated in the CIT and, on appeal, in the Federal Circuit.[1] These specialized courts held that, by reason of 28 U.S.C. § 1581, they had exclusive jurisdiction to resolve the issues so presented.

The court below disagreed with Federal Circuit's determination that it had exclusive jurisdiction, holding

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[1] *Vivitar Corp. v. United States*, 585 F. Supp. 1419, 593 F. Supp. 420 (CIT 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, — U.S. —, 106 S. Ct. 791 (1986).

that the plaintiffs' suit against the United States "does not fall within any of the specific provisions of 28 U.S.C. § 1581." 790 F.2d at 907 (Gov't Pet. App. 8a). Rather, it held that the district court had general federal question jurisdiction under the Lanham Act. 790 F.2d at 905 (Gov't Pet. App. 4a). *Accord, Olympus Corp. v. United States*, 792 F.2d 315, 317-319 (2d Cir. 1986). In fact, the CIT had jurisdiction over the plaintiffs' claim under either 28 U.S.C. § 1581(i)(3) or § 1581(i)(4).

A. This Is a Suit Arising Out of a Law Providing for "Embargoes or Other Quantitative Restrictions on the Importation of Merchandise"

The CIT is the successor to the Customs Court, which until 1980 exercised relatively limited jurisdiction to review the denials of various "protests." [2] The Customs Court Act of 1980 substantially expanded the jurisdiction of the new court, and changed its name to reflect these increased responsibilities. Much of the CIT's jurisdiction was conferred in a "residual" subsection (i) which provides, in pertinent part, that the CIT has exclusive jurisdiction over:

> any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for—
>
> * * * *
>
> (3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; . . .

1. *The Statutory Language*

It is undisputed that this is an action "against the United States," as well as against its "agencies" and "officers." The claim arises out of a "law of the United States"— to wit, Section 526 of the Tariff Act—that pro-

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[2] *See* 28 U.S.C. § 1582 (1976); H.R. Rep. No. 1235, 96th Cong., 2d Sess. 18-19, *reprinted in* 1980 U.S. Code Cong. & Ad. News 3729-3730 (hereinafter "House Report").

vides for an "embargo" or "quantitative restriction on the importation of merchandise." Section 526 excludes certain merchandise from the United States altogether. A prohibition on importation is plainly an "embargo or other quantitative restriction." [3]

Contrary to the approach it took when it considered the merits of the plaintiff's claim (*see* pp. 19-22, *infra*), the court below refused to read the applicable statute literally when it decided the threshold jurisdictional issue. The decision below acknowledged that "Section 526 undoubtedly prevents certain goods from entering the country (those with trademarks identical to American trademarks)," but it denied that the prohibition on importation of those goods qualified is an "embargo." 790 F.2d at 907 (Gov't Pet. App. 7a). Instead, the court below read an unwritten condition into the jurisdiction provision: "Section 1581(i)(3) only extends to quotas and embargoes *arising out of trade policy*, the sort of measures that have traditionally limited the importation of shoes, textiles, automobiles, and the like." 790 F.2d at 907 (Gov't Pet. App. 8a) (emphasis added).

But subsection (3) specifies the only kinds of "embargoes or quantitative restrictions on importation" that are beyond the exclusive jurisdictional grant: those based on "the protection of the public health or safety." *All* quotas and embargoes based on "reasons other than the protection of the public health or safety"—including reasons of "trade policy"—are within the exclusive jurisdiction of the CIT.

When Congress chose to define the jurisdictional grant negatively by specifying "reasons other than the protection of the public health or safety" rather than by declaring positively that it is to apply only for "trade policy reasons," it rejected the very limited position of the court below. Nor was the statutory qualification on the

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[3] One dictionary definition of "embargo" is "a prohibition imposed by law upon commerce either in general or in one or more of its branches." *Webster's New International Dictionary* (3d ed. 1971).

jurisdiction of the CIT hastily or casually drafted. The House Judiciary Committee's report on the legislation specifically addressed the drafting of subsection (3). House Report 47-48 & nn. 50-51, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3758-3760. It quoted that subsection in a footnote, *with emphasis on the qualifying clause*, and explained that it had adopted this "more precise subsection (i) in order to remove any confusion over the jurisdiction" of the CIT.[4] Since the language of the statute includes a specific exception to a general category defined in the law whose scope was carefully considered, Congress must have intended this limited exception to be the only exclusion from the grant of jurisdiction. *Andrus v. Glover Construction Co.*, 446 U.S. 608, 616 (1980); *Tennessee Valley Authority v. Hill*, 437 U.S. 153, 188 (1978); 2A *Sutherland Statutory Construction*, § 47.11, at 145 (1984 rev. ed.).

Though its scope is in dispute, Section 526 of the Tariff Act clearly excludes merchandise "for reasons other than protection of public health and safety." Consequently, whether or not it expresses "trade policy" or is "the sort of measure[] that [has] traditionally limited the importation of shoes, textiles, automobiles and the like" (790 F.2d at 907; Gov't Pet. App. 8a), it falls within the category of laws described in subsection (3).

2. *The Legislative History*

The legislative history, both as to the origins of the precise language used in the "residual" jurisdiction provision and as to the general purposes of the statute, refutes any implied limitation to "trade policy" embargoes or quotas. The primary impetus for the passage of the Customs Court Act of 1980 was Congress' growing rec-

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[4] A number of witnesses in House hearings on the legislation were specifically asked to comment on how best to express Congress' intention to exclude certain prohibitions on imports from the CIT's jurisdiction. *Customs Court Act of 1980: Hearings on H.R. 6394 Before the Subcomm. on Monopolies and Commercial Law of the House Comm. on the Judiciary*, 96th Cong., 2d Sess. 142, 215, 252-63, 280 (1980) (hereinafter "House Hearings").

ognition, in the late 1970's, that there was widespread and wasteful confusion over the division of jurisdiction between the Customs Court and the district courts. To address this problem, a series of bills was introduced whose common feature was a substantial expansion of the Customs Court's jurisdiction and authority.[5] Much of this proposed expanded jurisdiction was set forth in "residual" jurisdictional provisions, which, as modified, became Section 1581(i).[6]

The final language of the "residual" jurisdiction provision originated while the legislation was being considered by the House Judiciary Committee. Prior to that point, the residual provisions in all bills considered by the 96th Congress would have conferred CIT jurisdiction, *inter alia*, over cases against the federal government which (1) "arise directly from an import transaction" or "import transactions" and (2) "arise under" or "involve"

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[5] S. 2857, 95th Cong., 2d Sess., 124 Cong. Rec. 9191-97 (1978); S. 1654, 96th Cong., 1st Sess. (1979); H.R. 6394, 96th Cong., 2d Sess. (1980); H.R. 7540, 96th Cong., 2d Sess. (1980).

[6] This subsection was immediately derived from three bills introduced in the 96th Congress. S. 1654 was referred to the Judiciary Committee, and was reported with amendments and passed by the Senate in 1979. S. 1654, 96th Cong., 1st Sess. (1979); 125 Cong. Rec. 22,333 (1979) (statement of Senator DeConcini); S. Rep. No. 466, 96th Cong., 2d Sess. (1979); 125 Cong. Rec. 36,624-31 (1979) (debate and passage). The House took up its own bill, H.R. 6394, the following year. After hearings before a subcommittee of the Judiciary Committee, the subcommittee drafted a "clean" bill, H.R. 7540 (June 10, 1980). House Report 1-17, 29, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3729, 3740-3741. The full Judiciary Committee made modifications to that bill, which included the version of the "residual jurisdiction" provision that was ultimately enacted, before reporting it to the floor of the House. H.R. 7540 (August 20, 1980); House Report 35, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3746-3747. This bill was passed by the House and Senate without change or substantial debate on the floor as the end of the term approached. 126 Cong. Rec. 26,546-61 (1980) (House consideration and passage); 126 Cong. Rec. 27,056-64 (1980) (Senate consideration and passage). In the House, the text of H.R. 7540 was substituted for S. 1654 and repassed as such.

certain enumerated statutes, including the Tariff Act of 1930.[7]

The House Judiciary Committee recast this language in two respects. It struck the language requiring that the suit "arise from an import transaction" and replaced the listing of specific statutes, including the Tariff Act, with descriptive categories. The Committee's report explained its preference for this "generic" approach as follows (House Report 33-34, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3744-3745):

> Additionally, there was concern that the listing of specific statutes would result in an inadvertent omission of a statute, thereby creating further confusion in the minds of international trade law litigants. In light of its concerns, the Subcommittee on Trade recommended a generic approach rather than a specific listing of statutes in an effort to provide greater protection for the rights of persons involved in disputes arising out of import transactions. In response to the concerns raised by the Subcommittee on Trade, the full Judiciary Committee adopted an amendment utilizing the generic approach. Under proposed section 1581(i) of H.R. 7540, as amended, the Court of International Trade has jurisdiction over those civil actions which arise out of a law of the United States pertaining to international trade.

This explanation of the language of Section 1581(i) clearly rebuts the view of the court below. Section 526 is a part of the Tariff Act of 1930, and, therefore, cases arising under it would unquestionably have been within the CIT's jurisdiction had earlier versions of the residual jurisdictional provision been enacted. When the House Committee chose a different "generic" drafting approach, its intention was not to exclude the statutes previously enumerated as a basis for CIT jurisdiction. Rather, the Committee's objective was to "provide greater protection," for persons invoking CIT jurisdiction, to avoid

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[7] S. 1654, *supra*, § 302 (Aug. 2, 1979); S. 1654, *supra*, § 301; 125 Cong. Rec. 36,625 (1979); H.R. 6394, *supra*, § 201(a); H.R. 7540, *supra*, § 201 (June 10, 1980).

the "inadvertent omission of a statute" and thereby to give the CIT jurisdiction over all "civil actions which arise out of a law of the United States pertaining to international trade." [8]

The general purposes of the statute also foreclose the interpretation of Section 1581(i) adopted by the court below and the Second Circuit. A major purpose was to "eliminate confusion" as to the scope of the CIT's jurisdiction. As the House Report stated, with respect to the residual provision (House Report at 47, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3759):

> The purpose of this broad jurisdictional grant is to eliminate the confusion which currently exists as to the demarcation between the jurisdiction of the district courts and the Court of International Trade. This provision makes it clear that all suits of the type specified are properly commenced only in the Court of International Trade.[9]

Interpretations, like that of the court below, which add implied limitations on the jurisdiction of the CIT to those expressly stated are sure to add to the very "confusion" that Congress sought to reduce in 1980. The Federal Circuit and two other courts of appeals already differ on whether Section 1581(i)(3) carries an implied limitation to matters of "trade policy." Apart from disputes over whether the statute includes any such limitation, the application of such a standard would be virtually impossible. Except to observe briefly that Section 526 is not a paradigm quota on particular goods, the court below offered no explanation of how one is to determine whether a prohibition on imports reflects "trade policy" or not, particularly when its scope and intent are disputed.

The second major purpose of Section 1581 was to create:

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[8] *See* 126 Cong. Rec. 26,554 (1980) (remands of Rep. Rodino).

[9] *See also, e.g.*, House Report 20, 27-28, 29-30, 33, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3731-3732, 3739-3742, 3744-3745; 126 Cong. Rec. 26,552 (1980) (remarks of Rep. Volkmer); S. Rep. No. 466, *supra*, 1-2, 4-5, 10; House Hearings 1.

a comprehensive system of judicial review of civil actions arising from import transactions, utilizing the specialized expertise of the United States Customs Court and the United States Court of Customs and Patent Appeals. This comprehensive system will ensure greater efficiency in judicial resources and uniformity in the judicial decisionmaking process.[10]

Congress' objectives of "comprehensiveness," "efficiency" and "uniformity" weigh heavily in favor of an inclusive interpretation of Section 1581(i) and against adding unexpressed limitations to the statute. The conflict between the District of Columbia Circuit and Second Circuit on the merits of this case provides dramatic evidence of how transferring cases from the CIT to the district courts can foster uncertainty and conflict that only this Court will be able to resolve.

Congress' decision to establish a "comprehensive system of judicial review" at the CIT also lays to rest any suggestion that that CIT's jurisdiction should be circumscribed to reflect supposed limitations on its expertise. The D.C. Circuit's opinion observed that the CIT's "expertise" was limited to "traditional Customs matters" and the Second Circuit suggested that "trademark matters" are "outside the expertise of the CIT." [11] However, the

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[10] *Accord,* House Report 20, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3731. 126 Cong. Rec. 26,552 (1980) (remarks of Rep. McClory); 126 Cong. Rec. 27,063-64 (1980) (remarks of Senator DeConcini). *See* 125 Cong. Rec. 36,630-31 (1979) (remarks of Senator DeConcini regarding S. 1654). An intended effect of conferring this jurisdiction on the CIT was also to transfer cases from overburdened district courts to the then relatively underutilized Customs Court. 126 Cong. Rec. 26,552 (1980) (remarks of Rep. Volkmer). *See* S. Rep. No. 466, *supra* at 1-2; 125 Cong. Rec. 36,630-31 (1979) (remarks of Senator DeConcini).

[11] 790 F.2d at 907 (Gov't Pet. App. 8a); 792 F.2d at 318. In point of fact, the CIT has addressed trademark and copyright issues. *E.g., Schaper Mfg. Co. v. Regan,* 566 F. Supp. 894 (CIT 1983); *Lois Jeans & Jackets, U.S.A., Inc. v. United States,* 566 F. Supp. 1523 (CIT 1983). Further, it is ironic that courts that have claimed a greater degree of "expertise" for themselves have reached opposite conclusions on the merits of this dispute.

1980 Act was a substantial extension of CIT jurisdiction, and also conferred new remedial power[12] belying any notion that it should be construed by relation to the matters "traditionally" before the court. There is not a whisper in the legislative history of any concern on Congress' part, that the CIT was not equipped to handle all of the cases to which the language of Section 1581 extends. For these reasons, it would be improper to restrict the CIT's jurisdiction because of another court's concerns about the CIT's institutional capabilities.

In short, the explicit language of Section 1581(i)(3) includes this case and refutes any attempt to limit the CIT to cases arising from statutes expressing "trade policy"—which is itself an impractical and imprecise criterion. The legislative history confirms this conclusion, and it also accords with Congress' stated purposes of clarifying and extending CIT jurisdiction, and guaranteeing uniformity in cases addressing international trade.

B. The CIT Has Exclusive Original Jurisdiction as a Corollary to Its "Protest Jurisdiction."

The Court of Appeals for the Federal Circuit also held that a determination as to the validity of Customs regulations implementing Section 526 was within the exclusive jurisdiction of the CIT "as a corollary to protest jurisdiction under 28 U.S.C. § 1581(a)." 761 F.2d at 1560. That alternative holding was correct.

Section 1581(a) confers exclusive jurisdiction on the CIT of

> any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.

Subsection (i)(4) also confers jurisdiction over any action against the United States that arises out of a law "providing for . . . administration and enforcement with respect to the matters referred to in" subsection (a). The District of Columbia and Second Circuits have held

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[12] 28 U.S.C. § 1585.

that this limits the CIT to the protests themselves. The Federal Circuit held that the "matters referred to" include the statutes and regulations that are involved in such protests—in this case, the Customs regulations and procedures concerning parallel imports.

Both views are reasonable literal readings of a phrase that is not clear on its face: "with respect to the matters referred to." Nor is there specific legislative history that speaks to this issue. However, the Federal Circuit's reading conforms far more closely to the central purposes of the statute.

One such purpose was to "create a comprehensive system of judicial review of civil actions arising from import transactions." *See* pp. 15-16, *supra*. This goal would be frustrated if suits against the government arising from a single statute could be heard either by the CIT or by the district courts depending on their procedural context. If goods are excluded under Section 526, the importer may file a "protest" under Section 514(a)(4) of the Tariff Act, 19 U.S.C. § 1514(a)(4). The denial of such a protest would indisputably be reviewable, in the first instance, by the CIT under Section 1581(a). Hence, the CIT would have full authority to construe the statute on which exclusion was based.

In the present case, if the plaintiff is correct, goods that should be excluded are being admitted. This claim turns on the same issues as a protest against exclusion of the goods. Yet the rule applied by the court below means that the present lawsuit must be decided by the district courts. Such a division of authority undermines the "comprehensive system of judicial review" and "uniformity" in trade disputes contemplated by Congress. It makes the forum for resolution of disputes over international trade issues dependent on the government's initial position. If it favors domestic interests, the importer could protest and the CIT would have exclusive jurisdiction. If the importer is permitted to bring in his goods, the result is a district court action. No sensible purpose is served by dividing jurisdiction in this manner. The Federal Cir-

cuit's interpretation of Section 1581(i)(4) avoids these consequences and conforms to Congress' purpose in enacting a "residual" jurisdictional section.

For these reasons, the courts below lacked subject matter jurisdiction, which was conferred exclusively on the CIT. Accordingly, this case must be remanded with instructions to dismiss the complaint.

II. THE LANGUAGE OF SECTION 526 CONFERS AUTHORITY TO EXCLUDE AUTHENTIC MERCHANDISE ONLY ON INDEPENDENT AMERICAN TRADEMARK OWNERS

Section 526 declares that it is unlawful to import into the United States

(1) any merchandise of foreign manufacture

(2) bearing a trademark

(3) owned by a citizen of the United States or a corporation organized within the United States, and

(4) registered in the Patent and Trademark Office by a person domiciled in the United States,

(5) if a copy of the certificate of registration is filed with the Secretary of the Treasury.

The third and fourth statutory elements limit the right to exclude merchandise to articles bearing a trademark "owned by a citizen of . . . the United States" and "registered . . . by a person domiciled in the United States." What does the word "owned" mean in the first of these quoted statutory fragments? And what does the word "domiciled" mean as applied to affiliates of foreign corporations?

Since there was a deliberate Congressional decision, reflected in the terms of Section 526, to limit the power to exclude merchandise to instances in which the "owner" is *both* an American corporation and a domiciliary of the United States, the statutory terms must be read carefully.[13] Even if read "literally," Section 526 may be in-

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[13] It is significant that the only change in Section 526 between its passage by the Senate and its enactment related to the American

voked only by an "owner" that is an American corporation and is "domiciled" in the United States. A corporate affiliate of a multi-national foreign producer—be it a distribution subsidiary or an American corporate parent whose goods are produced and distributed abroad—does not qualify under Section 526.

This Court has, in recent years, construed terms that are more "clear" or "plain" on their face than the words "owned" and "domiciled" in Section 526. In *Washington Metropolitan Area Transit Authority v. Johnson*, 467 U.S. 925 (1984), the central issue was the meaning of the word "employer" in Section 5(a) of the Longshoremen's and Harbor Workers' Compensation Act. This Court noted that the statutory term "does not effortlessly embrace contractors," but it gave the word a broader interpretation in the LHWCA "than that word's ordinary meaning." 467 U.S. at 933. This "slightly strained reading" (467 U.S. at 934) was permissible in order to effectuate the policies of the legislation.

The Court took a similar approach in another 1984 case—*Secretary of the Interior v. California*, 464 U.S. 312 (1984)—which involved the Interior Department's sale of oil and gas leases off the coast of California. The governing statute required federal coordination with State agencies for "activities directly affecting the coastal zone." 16 U.S.C. § 1456(c)(1). Acknowledging that the words "directly affecting," if read literally, go beyond waters that are "in" the coastal zone, the majority of the Court reviewed the legislative history and determined that only activity "within" the coastal zone is included in the reach of the law. 464 U.S. at 321-324.

Decisions during this Term of Court support this approach. In *O'Connor v. United States*, —— U.S. ——, 107 S. Ct. 347 (1986), the central issue was whether a

character of the trademark "owner." As initially passed, the law would have required only that the "registrant" be a domiciliary of the United States. 62 Cong. Rec. 11,602 (1922). "Ownership" by an American citizen or corporation was deliberately added in conference. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).

treaty declaring United States citizens "exempt from any taxes" granted an exemption only from Panamanian, and not American, taxes. A unanimous Court held that the "contextual case for limiting" the provision to Panamanian taxes was "overwhelmingly convincing." 107 S. Ct. at 350. *Accord, Kelly v. Robinson*, —— U.S. ——, 107 S. Ct. 353 (1986). *See also Jersey Shore State Bank v. United States*, 55 U.S.L.W. 4127 (U.S. Jan. 20, 1987); *Federal Election Comm'n v. Massachusetts Citizens for Life, Inc.*, —— U.S. ——, 107 S. Ct. 616 (1986). In construing a saving clause of the Clean Water Act, the Court rejected the most plain and direct meaning of the statutory language in *International Paper Co. v. Ouellette*, 55 U.S.L.W. 4138 (U.S. Jan. 21, 1987). The Court was satisfied with the conclusion that "the plain language of the provisions . . . by no means compels the result [respondents] seek." 55 U.S.L.W. at 4141. In this case there is similarly no "compulsion" to read the ambiguous terms of Section 526 as barring an examination of true ownership or real domicile.

The words chosen by Congress in 1922 did not, to be sure, explicitly distinguish between American corporations that are independent entities and those that own foreign subsidiaries or are owned by foreign parents. That does not mean, however, that Congress wanted to treat multi-national distributors just as independent American companies were treated. The difference between independent corporations and those that are subsidiaries was noted by this Court in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984). The Court recognized the basic identity between a corporate parent and its corporate subsidiary and their "complete unity of interest." 467 U.S. at 771. The Court noted that the legal issue in that case was not "whether the term 'conspiracy' will bear a literal construction that includes parent corporations and their wholly owned subsidiaries." 467 U.S. at 776. Rather, the Court said, "the appropriate inquiry requires us to explain the logic underlying Congress' decision to exempt unilateral conduct

from § 1 scrutiny, and to assess whether that logic similarly excludes the conduct of a parent and its wholly owned subsidiary." *Id.*

By the same reasoning, the "appropriate inquiry" in this case is not the literal, technical meaning of "owner" or "domiciled" in Section 526. The critical question is why Congress required American ownership of the trademark and excluded foreign owners and their agents from the rights conferred by Section 526. It would conflict with the denial of Section 526 rights to foreign corporations to permit parents or subsidiaries of foreign corporations to invoke those rights. In this case, as in *Copperweld*, there is "a complete unity of interest" and "the subsidiary acts for the benefit of the parent." 467 U.S. at 771.

Subsections (1), (2) and (3) of 19 C.F.R. § 133.21(c), cover, respectively, the situation in which foreign and domestic trademarks are owned by "the same person or business entity," by "parent and subsidiary companies or [companies which] are otherwise subject to common ownership or control," and in which the articles of foreign manufacture "bear a recorded trademark . . . applied under authorization of the U.S. owner." That is *precisely* where Congress intended to draw the line—to protect American owners of a foreign trademark against importation of goods distributed abroad by unrelated parties. The statutory terms "owned" and "domiciled" should, therefore, be read as limiting Section 526 to truly independent American companies that are unaffiliated with foreign producers.

III. THE LEGISLATIVE HISTORY OF SECTION 526 SUPPORTS A LIMITATION OF THE LAW TO INDEPENDENT AMERICAN TRADEMARK OWNERS

We turn now to the history of Section 526, which demonstrates overwhelmingly that Congress did not intend to confer the right to exclude authentic trademarked merchandise on foreign manufacturers or their subsidiaries (even if incorporated in the United States), but only on independent American concerns that had pur-

chased the American trademark rights in arms-length dealing.

A. Section 526 Was Enacted to Protect the Financial Investments of Independent American Trademark Owners

1. Bourjois v. Katzel

There is little quarrel as to why Congress enacted Section 526. Everyone acknowledges that it was a response to the decision of the Court of Appeals for the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), which was on appeal to this Court when Section 526 was introduced in the Senate. This Court ultimately reversed the Second Circuit (*A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923)), but not until after Section 526 was enacted.

Bourjois v. Katzel concerned the right to market in the United States face powder bearing the trademark "Java," that had been initially registered in the United States by a French manufacturer of the powder. The French manufacturer then "sold to the plaintiff for a large sum their business in the United States, with their good will and their trademarks, registered in the Patent Office." 260 U.S. at 690. The American purchaser re-registered the trademarks and sold the imported powder as its own to consumers in the United States.

By the time it brought suit, the plaintiff had taken pains to develop its own identity with American consumers, quite apart from that of the foreign manufacturer.[14] 260 U.S. at 691. Nevertheless, the court of ap-

[14] The American company which was the petitioner in this Court, emphasized to the Court that it alone was identified with the product in the United States (Brief for Petitioner, No. 190, October Term, 1922, pp. 8-9, record citations omitted):

> The plaintiff's goods, due to the expenditure of a great deal of money for advertising during the last eight years—(the Court will take judicial notice that these particular years are probably the equivalent of a half century of ordinary untroubled years)—are widely and universally recognized throughout the whole of the United States as the output of this plaintiff and this recognition extends to the remotest

peals had held that the American trademark owner—the Bourjois Company—could not maintain a civil suit against a retailer who sold the powder in the United States after purchasing it in France from the authentic manufacturer. 275 F. at 543. The court of appeals ruled that because the defendant's French labels accurately identified the manufacturer of the face powder, no trademark right had been violated.

Before the *Bourjois v. Katzel* case could be decided by this Court, Congress proposed and enacted Section 526 of the 1922 Tariff Act. This Court arrived at the same result, less than three months later, in a short opinion by Justice Holmes. The Court did not refer to precedent or to the language of any statute; it emphasized the equities. On the particular facts of the case before it, the Court held that American trademark law gave the independent American owner of the registered trademark the legal and equitable right to enjoin anyone else—including the French producer of the goods, who had completely transferred its American rights—from selling the

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quarters and sections of the country. Wherever and whenever a box of face powder appears upon the market in the United States like or similar to the plaintiff's standard package, it is, in the language of plaintiff's affiant O'Connell,

> "the indication and proof that the contents emanates from the New York Company and represents the selection, special treatments, packing and get-up of the New York Company.

The American company summed up its argument to this Court as follows (*id.*, p. 13):

> The plaintiff having, as explained, acquired its rights by purchase in 1913 at a very high figure and having then fortified and established those rights and having identified them with the plaintiff in the public mind by the expenditure of vast sums for advertising, etc., and the payment of enormous taxes, all representing the investment of American dollars in an American business, has undoubtedly become and now is entitled to protection against any invasion of the trade which it has built up and established, no matter what form that invasion may take or how plausible or specious the tendered justification for any such invasion may be.

same powder under that mark in the United States. Justice Holmes noted that it would be unfair to permit the French seller to arrange to have its goods marketed in the United States by someone other than the American owner "for the purpose of evading the effect of the transfer." 260 U.S. at 691. Such a "contrivance," he said, "must fail." *Id.* For the same equitable reason, Justice Holmes said, buyers from the French producer, even if not engaged in any conspiracy, were prohibited from violating the trademark rights that had been purchased by an American concern and that had been developed in this country with the investment of $400,000—an amount that was, by standards of that day, an enormous sum. *See* 274 F. 856, 857 (S.D.N.Y. 1920).[15]

There can be no doubt, therefore, that the *Bourjois v. Katzel* litigation concerned very different equities from those presented in this case. The courts had before them the rights of an independent American trademark owner, who had invested substantial amounts in purchasing a trademark from a foreign manufacturer and in develop-

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[15] Shortly thereafter, in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), this Court ruled *per curiam* that the same plaintiff could prevent the importation by a third party of face powders made in France by the same company from which the plaintiff obtained its powder. The petitioner's brief in the *Aldridge* case makes clear that the facts were virtually identical to those in *Bourjois v. Katzel. See* Brief on Behalf of A. Bourjois & Co., Inc., in *A. Bourjois & Co. v. Aldridge*, No. 50, October Term, 1922, at pp. 1, 3-6. Thus, the *Aldridge* decision, which was tied completely to the facts and analysis of *Bourjois v. Katzel*, held only that an independent American trademark owner that had developed its own public identification with the trademarked product could have the trademarked goods excluded under the 1905 Trade-Mark Act.

The Solicitor General, responding to the petition in *Bourjois v. Aldridge*, asserted "no opposition" to the relief requested by the American Bourjois Company. It was surely relevant, by that juncture, that Congress had enacted Section 526. Indeed, the Solicitor General quoted Section 526 in his responsive memorandum, although he cautioned that this was being done "without suggesting that any new questions arise in the present case by reason of this recent addition." Brief for George W. Aldridge, Collector of the Port of New York, p. 2.

ing an American identity distinct from that of the foreign trademark owner. The central question was whether the foreign manufacturer's goods—which were not subject to any control or influence whatever by the American trademark owner—could be freely imported into the United States merely because they were "authentic" products.

An entirely different situation is presented when the owners of the American and foreign trademark are the same person or are corporations that are affiliated as parent and subsidiary. In those circumstances, the American trademark owner is seeking protection against competition from its *own* merchandise, which it has chosen to send into the stream of international commerce. Such an American owner has many alternative means in his control of preventing his own foreign-manufactured goods from competing with his American-manufactured goods. He may sell his products at the same prices here and abroad or he may make the American product distinctive from the foreign one. Total exclusion of a foreign-manufactured product from the United States goes far beyond whatever legitimate economic interest the American trademark owner may assert.

2. *The Legislative Materials*

The discussion on the floor of the Senate corroborates the primary lesson of the *Bourjois v. Katzel* litigation. In enacting Section 526, Congress was addressing precisely the same inequity—fraud on Americans who had purchased independent trademark rights from a foreign manufacturer—that this Court addressed in the opinion it issued shortly thereafter. The emphasis on the rights of *independent American* companies threatened by inequitable competition from foreigners who had sold them exclusive U.S. trademark rights permeated the short Congressional debate.[16]

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[16] The Senators apparently believed that *Bourjois v. Katzel* involved a foreign manufacturer that was itself shipping its trademarked goods to the United States after selling the same trademark

Congress was concerned lest foreign enterprises take unfair advantage of independent American firms to which they had sold exclusive trademark rights in this country for substantial sums, particularly if the American purchasers had built up local good will with the domestic expenditure of money and energy. The legislative history of Section 526 demonstrates beyond cavil that Congress did not intend to provide the means for market manipulation whereby a foreign manufacturer could suppress price competition by barring from this country his own authentic goods produced and purchased abroad.

Discussion on the bill that became Section 526 covered less than three full pages of the Congressional Record. The Senators who opposed the legislation urged that it be referred to the Committee on Foreign Relations or the Committee on Patents. They were, however, outnumbered by those such as Senator Sutherland of West Virginia who explained that "its *only* aim is to prevent a palpable fraud." 62 Cong. Rec. 11,603 (emphasis added). He said (*id.*):

> I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

Senator McCumber, a co-sponsor of the comprehensive tariff bill to which Section 526 was a last-minute amendment, then explained that he supported the provision because, under the decision of the Court of Appeals in *A. Bourjois v. Katzel*, "the American purchasers of these [trademark] rights are entirely unprotected." 62 Cong.

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to an American citizen. Thus, the Senators continually referred to "fraud" by the foreign manufacturer, 62 Cong. Rec. 11,603 (remarks of Senator Sutherland), 11,604 (remarks of Senator McCumber). Although this view was factually incorrect, it was the reason for passage of Section 526, and the language of the law must be interpreted in light of this state of mind.

Rec. 11,604. The amendment, he said, "is to give the opportunity to protect the American purchaser." *Id.* In answer to further questions, he described Section 526 as "a prohibition against the violation of [] contract," and he added, "In a thousand ways we have guarded against fraud, and this [is] one among the thousand." *Id.*[17]

There was no suggestion whatever that the foreign owner of an American trademark should be permitted to control the flow of his own goods into the United States or that an American trademark owner who produces goods abroad should be able to bar his own product from the United States.[18] In fact, a final question

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[17] A particular illustration of the kind of American investment sought to be protected was given by Senator Simmons of North Carolina. He described the case of the American owners of the Bayer Aspirin trademark, who had purchased that interest at an auction conducted by the Alien Property Custodian for $5 million. 62 Cong. Rec. 11,604. The importation of German aspirin under the same trademark would obviously have destroyed the value of that purchase.

[18] The court of appeals cited one brief exchange between Senator Lenroot, an opponent of the bill, and Senator McCumber, its advocate, as proof that the bill was not designed to have the limitation that Customs has imposed. 790 F.2d at 911 (Gov't Pet. App. 17a). To demonstrate the absurd result that would follow from the original language of the bill, Senator Lenroot noted that an American who purchased Wonder Flour—a product manufactured in the United States—on the other side of the Canadian border would be prohibited from bringing that authentic trademarked product into the United States. Senator McCumber immediately agreed to amend the language to limit the bill to merchandise "of foreign manufacture" to exclude that extreme case, and this amendment was accepted.

If anything, the exchange proves *our* point—*i.e.*, that the Senate did not want to extend the bill to products that had emanated from, or been authorized by, American trademark owners such as Wonder Flour. The Wonder Flour hypothetical would have seemed equally absurd to Senators Lenroot and McCumber if the Canadian trademark for Wonder Flour had been held by a subsidiary of the American owner, and if the flour had been produced, under license from the American owner, on the Canadian side of the border. The readiness with which the Wonder Flour case was excluded by mutual agreement proves that the Senators did not want to include

directed by Senator Lenroot, an opponent of the legislation, to Senator McCumber raised the question whether a foreign manufacturer would be able, under this provision, to have an American agent register its trademark in the United States and then bar others from bringing the trademarked item into the country. Senator McCumber responded (62 Cong. Rec. 11,605):

> The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.

What emerges from the full 1922 legislative history is a picture of a hastily drafted legislative provision, designed to prevent an inequity that a recent court decision had sanctioned. In that context, a narrow reading of Section 526 makes eminently good sense. If Section 526 were broadly construed, as the court below has read it, it would leave major questions unanswered: Why would Congress have wanted in 1922 to keep out of the United States goods manufactured abroad whose trademark ownership—even if nominally held by an American company—was truly controlled by a foreign corporation? Conversely, why would Congress have wanted in 1922 to permit an American firm to keep from the United States goods that it was manufacturing and distributing abroad, through subsidiaries, and which carried the authentic trademark applied with the approval of the American firm? [19]

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within Section 526 goods to which the authentic trademark had been applied with the consent of the American trademark owner.

[19] The court of appeals also relied on a legislative proposal made in 1930 to keep American corporations from moving their production plants abroad as proof of Congress' understanding of the 1922 law. 790 F.2d at 912 (Gov't Pet. App. 20a). In rejecting this same argument, Judge Restani of the Court of International Trade noted that a principal supporter of the 1930 proposal expressed his understanding that Section 526, as it stood then (and stands now), was designed "to protect the American owner of the trade-mark against importations of articles *which have been stamped with his*

IV. THE FEDERAL AGENCY RESPONSIBLE FOR ENFORCING SECTION 526 HAS INTERPRETED IT FOR THE PAST FIFTY YEARS AS PROTECTING ONLY INDEPENDENT AMERICAN TRADEMARK OWNERS

A firmly established rule of statutory construction is that courts must defer to interpretations of regulatory statutes by agencies charged with the enforcement of those statutes. This Court reaffirmed that principle as recently as January 14, 1987, in *Clarke v. Securities Industry Ass'n*, —— U.S. ——, 107 S. Ct. 750, 759 (1987). Indeed, this Court held in *Chevron, U.S.A., Inc. v. Natural Resource Defense Council*, 467 U.S. 837 (1984), that a court is not free to "impose its own construction of the statute" (467 U.S. at 843), but may only pass on "whether the agency's answer is based on a permissible construction of the statute." *See also Young v. Community Nutrition Institute*, —— U.S. ——, 106 S. Ct. 2360 (1986).

The Customs Service (previously known as the "Bureau of Customs") has a consistent record of permitting parallel importation when the foreign producer and the American trademark owner are essentially identical.

Customs' published record begins with a 1936 Treasury Decision, No. 48,537, which dealt specifically with the procedures for effectuating Section 526 (J.A. 27-29). In instructions to "Collectors of Customs and Others Concerned," the then Commissioner of Customs invoked his authority to implement, *inter alia*, Section 526 of the Tariff Act of 1930. He directed local Collectors not to permit the importation of merchandise bearing a statutory protected

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mark without his consent." *Vivitar Corp. v. United States*, 593 F. Supp. 420, 428 (C.I.T. 1984); 71 Cong. Rec. 3873 (1930) (emphasis added). Moreover, it is clear from the legislative debate that those who were supporting the 1930 amendment did not focus with precision on the coverage of Section 526 as originally enacted. They believed that by deleting the language permitting an American trademark owner to consent to the importation of trademarked goods, they could turn a law that had protected American corporations into a law that would effectively bar such corporations from establishing manufacturing plants abroad.

trademark, but added the following *caveat* (*id.* at 28, emphasis added):

> However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purposes of these regulations to copy or simulate such United States trade-mark or trade name *if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association or corporation.*

Contrary to the assertion made by the court below, the above provision *did* "purport to interpret" Section 526, as well as provisions of the Trade-Mark Act—well before the 1943 recodification which explicitly added that section as a marginal reference. 790 F.2d at 914, n. 14 (Gov't Pet. App. 23a, n.14). *See* J.A. 39-44. The preamble to the 1936 regulation begins with the recitation that they are promulgated "[p]ursuant to the authority" of both the Trade-Mark Acts of 1905 and 1920 and Sections 526 and 624 of the Tariff Act of 1930. J.A. 27

The Commissioner of Customs explicitly instructed the local Collectors of Customs which trademarked items could be admitted and which could not. In the former category, he placed those items whose American and foreign trademarks were owned by "the same person, partnership, association or corporation." It would have been senseless for the Commissioner to issue such instructions permitting importation of trademarked merchandise *only* to enforce Section 27 of the Trade-Mark Act of 1905, while leaving uninterpreted the language of Section 526. If the court below were correct, the identical merchandise would then have been importable under the Trade-Mark Act and the Commissioner's 1936 regulation but excludable under Section 526. The regulation would then have been a wholly meaningless gesture—announcing that goods excludable in any event under Section 526 are admissible under the Trade-Mark Act.

The *only* rational understanding of the 1936 regulation is that it did what its preamble said—enforce the Tariff Act as well as the Trade-Mark Act. For purposes of both laws, the Bureau of Customs said in 1936—as it has been saying consistently since that time—that the right to exclude conferred by Section 526 does not apply when the purported American "owner" is not independent but is, instead, the alter ego of the foreign trademark "owner." In that circumstance, it cannot be said that the American trademark is "owned" by a citizen of the United States.

Virtually identical language was included in the revised Customs Regulations of 1943 and 1947. 19 C.F.R. § 11.14 (b) (1943), 19 C.F.R. § 11.14(b) (1947) (J.A. 39, 46). In each case, the Bureau of Customs expressly invoked Section 526. J.A. 39, 46, 48.

There can be no question that, during this period, the Customs Bureau explicitly permitted parallel importation. In *In the Matter of Georg Jensen, Inc.*, T.D. 52,711 (1951)—involving the famous Jensen silver imported from Denmark—the Commissioner of Customs [20] permitted parallel importation of Jensen silver because the American registrant was not the ultimate owner of the trademark but only an arm of the Danish manufacturer: [21]

> Inasmuch as the petitioner in this proceeding presented evidence that Georg Jensen Solvsmedie of Copenhagen, Denmark, maintains control over the Georg Jensen trade-marks in this country, and as it is the opinion of the Bureau that when a foreign firm owns or controls one or more trade-marks in

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[20] The *Jensen* decision was contemporaneously viewed as the position of the Commissioner on the proper scope of Section 526. Derenberg, "The Impact of the Antitrust Laws on Trademarks in Foreign Commerce," 27 *N.Y.U.L. Rev.* 414, 429 (1952).

[21] Ultimately, this decision was reversed upon a showing that the American trademark owner had become an "independent dealer" because he purchased the articles in an arms-length transaction and the Danish manufacturer exercised no common control or ownership of the American trademark owner. *See* T.D. 52,971 (1952); *Georg Jensen & Wendel, A/S v. Georg Jensen Handmade Silver, Inc.*, 111 F.2d 169 (C.C.P.A. 1940).

> this country said trade-marks may not be used to prohibit the importation of articles sold by that foreign firm, all collectors of customs and other officers of customs shall hereafter not detain any jewelry or silverware under the trade-mark laws because the articles bear the words "Georg Jensen" or any part thereof provided the articles were manufactured or sold by Georg Jensen Solvsmedie of Copenhagen, Denmark.

See Derenberg, 27 *N.Y.U.L. Rev., supra*, at 429.

As international corporate relationships became more complex in a period of increasing trans-national commerce, the Customs regulations were adapted to meet changing conditions while carrying out the same basic policy. A 1953 revision of Customs regulations, designed in part "[t]o eliminate obsolete material, [and] correct discrepancies," added to the "same person, partnership, association or corporation" exception published in 1936 and repeated in 1943 and 1947, the phrase "or by a related company as defined in section 45 of the Trade-Mark Act of 1946." T.D. 53,399 (1953) (J.A. 55, 56).[22]

Customs policy was explained in 1951 by the then Commissioner of Customs, Frank Dow, in a letter to Senator Paul Douglas (J.A. 53; emphasis added):

> As interpreted by the Bureau, section 526 prohibits the importation of genuine articles of foreign origin bearing a genuine trade-mark valid in a foreign country, *which articles were not produced by or with the authority of the United States owner of such mark. . . .*
>
> However, if the United States trade-mark owner and the owner of the foreign rights to the same mark

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[22] The "related company" language was deleted in 1959. 24 Fed. Reg. 3513 (1959). After 1959, just as prior to 1953, Customs viewed the American and foreign owners of a trademark as the "same person" under the revised regulations if they were parent and subsidiary or under common control. In such circumstances, the American trademark owner could not exclude trademarked goods. *See* Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301, 310 (1969).

are one and the same person, articles produced and sold abroad by the foreign owner *may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter.*

On June 27, 1962, the Deputy Commissioner of Customs for Entry, Value and Penalties wrote to a Washington, D.C. attorney summarizing the Customs Bureau's policy regarding the situation of an American trademark owner that manufactures its goods abroad through subsidiaries who are authorized to affix the trademark to the foreign-manufactured product (J.A. 62):

> It is the Bureau's opinion that a foreign wholly owned subsidiary and its United States parent corporation are the same corporation within the meaning of section 11.14(b) of the Customs Regulations. This interpretation has been consistently applied for some years before insertion of the "related companies" provision in the customs regulations and since the "related companies" provision was deleted from the regulations in 1959.

In 1963, the Deputy Customs Commissioner continued to express the same view (J.A. 63):

> It has been the Bureau's position for many years that in permitting anyone to import merchandise manufactured or sold by the foreign parent or subsidiary corporation of an American trademark owner is [*sic*] the correct interpretation of section 526 of the tariff act and section 42 of the trademark law.

A 1968 Treasury Decision again explicitly made the parent-subsidiary relationship an integral element of Customs' enforcement of Section 526 and specifically covered the situation of an American trademark owner who authorizes foreign production of goods bearing the recorded trademark (T.D. 69-12(2), 3 Customs Bulletin 17 (1968); J.A. 65):

> The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if

the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible.

Following this consistent course, Customs promulgated and published in 1972 the regulations that are now being challenged. 19 C.F.R. § 133.21. This history led Judge Restani to conclude in the *Vivitar* case that "Customs' long-standing construction has been consistently applied since at least 1962, and . . . probably reflects Customs general practice under its regulations since 1936." 593 F. Supp. at 432.[23]

A leading Customs authority, who has been involved in the enforcement process for many years as the Customs Service's attorney, has explained that although the regulatory language has varied over the years, the agency "always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark" because

> the [Customs Service] is enforcing what it considers to be the Congressional intent to protect American

[23] The court below misread the significance of the action taken by the Solicitor General in *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated*, 358 U.S. 915 (1958). It was not true that the Customs Service knowingly barred parallel importation at the behest of subsidiaries or parents of foreign producers in the *Guerlain* case. The true explanation for the Customs' action was that the Bureau of Customs was unaware of the relationship between the American trademark owners and the foreign manufacturers. John Atwood, who was an attorney with the Bureau of Customs at the time and has continued in that capacity to the present day, subsequently explained that *Guerlain* left the Bureau of Customs in an "awkward position," because its "[r]egulations were not set up to specifically elicit [the] kind of information" necessary to identifying controlling foreign affiliations. Atwood, "Import Restrictions," 59 *Trademark Rep.*, *supra* n.22 at 307. *See* Motion of Solicitor General to Vacate Judgments, Nos. 24, 30 and 31, October Term, 1958, p. 7.

> firms against the fraud of foreign assignors of trademarks. Clearly if the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control, that intent is not being carried out. That is why the [Customs Service] does not interpret Section 526 literally whenever a firm "organized" in the United States is involved, but looks to the true controlling force over the trademark.

Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301, 305-306, 307 (1969).

In this case, as it did in *Federal Election Comm'n v. Democratic Senatorial Campaign Committee,* 454 U.S. 27 (1981), the Court of Appeals for the District of Columbia Circuit has erroneously repudiated a federal agency's interpretation of its governing statute. In the *Democratic Senatorial Campaign Committee* case, the agency policy was only five years old by the time this Court rendered its decision reversing the Court of Appeals' unjustified repudiation of the agency's action.[24] In this case, the Customs policy was incorporated in the challenged regulations in 1972—fourteen years ago. Those same policies were clearly described in official correspondence, regulations and decisions in the 1950's following published regulations issued in the 1930's and 1940's. There was no warrant for the statement of the court below that the Customs Service's interpretation of Section 526 fails in the criteria of "throughness, validity, and consistency" to merit judicial acceptance. The Second Circuit properly held otherwise in its decision in the *Olympus* case. 792 F.2d at 321.

V. CONGRESS WAS AWARE OF CUSTOMS' ADMINISTRATION OF SECTION 526 AND RATIFIED IT BY MAINTAINING THE STATUS QUO

On a number of occasions over the past half century, Congress manifested that it was fully aware of Customs'

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[24] The Court's opinion, issued on November 10, 1981, declared that "[s]ince 1976, [the agency] consistently has adhered to its construction . . . ." 454 U.S. at 37.

policy and chose not to override or interfere with it. One of the clearest relatively recent indications was in 1978, when Congress specifically examined Section 526 and even amended the law, but did not affect the administrative practice regarding parallel imports. The House Report accompanying the Customs Procedural Reform and Simplification Act, 92 Stat. 888 (1978), noted that Section 526 (H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977); emphasis added):

> has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States *if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.*

The 1978 Act was a comprehensive customs bill, which contained 27 separate sections (including amendments to Section 526), but it left intact the Customs Service's interpretation of, and practice under, Section 526 with regard to genuine foreign-made trademarked goods.

The court of appeals dismissed this Congressional acknowledgment of Customs' "consistent interpretation" as merely a single "casual statement in a committee report of one chamber." 790 F.2d at 917 (Gov't Pet. App. 30a). In so doing, the court below ignored other explicit manifestations of Congress' understanding through the years.

Most recent was the report of the Senate Judiciary Committee on the Trademark Counterfeiting Act of 1984 (S. Rep. No. 526, 98th Cong., 2d Sess. 3, *reprinted in* 1984 U.S. Code Cong. & Ad. News 3627, 3629). The Committee explained why that legislation would not hinder parallel importation (emphasis added):

> [The bill] does not include within its coverage so-called "gray-market" goods—i.e., authentic trademarked goods that have been obtained from overseas markets. *The importation of such goods is legal under certain circumstances.* For example, the

> Treasury Department *has long interpreted section 526 . . . to permit the importation of such goods* when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

There were, in addition, other times when Congress had the opportunity to revise the Customs practice but chose not to do so. When Congress considered and passed the Lanham Act, the United States Tariff Commission (predecessor of the International Trade Commission) informed Congress of Customs' policy, set forth in its regulations, that genuine trademarked goods were not barred from entry if the foreign and domestic trademark owners were the same person or entity. *Hearings on H.R. 82 Before the Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 86-87 (1944). Congress passed the Lanham Act, making no changes in Customs' policy or procedure.

In 1954 and again in 1959, Congress considered proposals that would have amended Section 526. Congress was advised of Customs' policy by the Assistant Secretary of State in 1954. *Customs Simplification Act of 1954: Hearings on H.R. 9476 Before the House Comm. on Ways and Means*, 83d Cong., 2d Sess. 6 (1954). *See also* H.R. 7234, 86th Cong., 1st Sess. §§ 2, 3 (1959). It was clear to Congress in 1954 that Customs was permitting the parallel importation of trademarked goods manufactured by companies "affiliated" with the American trademark owner. Indeed, in December 1953, the Treasury Department issued a public announcement of that policy. T.D. 53,399, 88 *Treas. Dec.* 384 (1953) (J.A. 55). Rather than change that policy in any way, Congress left the law exactly as it had been. And in 1959 Congress declined to alter Section 526 with full knowledge of existing Customs policies. *See* H.R. 7234, 86th Cong., 1st Sess. §§ 2, 3 (1959).

This Court has applied the doctrine of legislative ratification by acquiescence in a number of leading cases. *See, e.g., Bob Jones University v. United States*, 461 U.S. 574, 599 (1983) (Internal Revenue Service rulings issued in

1970 and 1971 denying tax-exempt status to racially discriminatory educational institutions had been known to Congress for more than a decade). Even if an agency's original assertion of statutory authority is dubious, Congressional acquiescence in the agency's exercise of that authority constitutes Congressional approval. In *Haig v. Agee*, 453 U.S. 280 (1981), this Court sustained the revocation of a passport by the Secretary of State even though "[t]he [1926] Passport Act does not in so many words confer upon the Secretary [the] power to revoke a passport." 453 U.S. at 290. The Secretary had officially asserted such a power by regulation since at least 1956. In 1978, Congress enacted legislation relating to passports, and it did not modify the State Department regulations relating to passport revocation. The Supreme Court therefore upheld the revocation and noted (453 U.S. at 301, *quoting Zemel v. Rusk*, 381 U.S. 1, 2 (1965)):

> The 1978 amendments are weighty evidence of congressional approval of the Secretary's interpretation, ... Despite the longstanding and officially promulgated view that the Executive had the power to withhold passports for reasons of national security and foreign policy, Congress in 1978, "though it once again enacted legislation relating to passports, left completely untouched the [administrative practice]."

This Court said in a footnote that because Congress had amended the Passport Act, Congress was "presumed to have adopted the administrative construction." 453 U.S. at 301, n.50. *See also Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 378-382 (1982). In the present circumstances, the rule stated by this Court in *Lorillard, Inc. v. Pons*, 434 U.S. 575, 580 (1978), applies:

> Congress is presumed to be aware of an administrative or judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change.

In its decision in the *Olympus* case, a majority of the Court of Appeals for the Second Circuit concluded that Congress knew of the Customs practice of permitting

parallel importation "and yet chose not to change it while amending other parts of section 526 in 1978." 792 F.2d at 321. The Second Circuit agreed with District Judge Johnson in this case that there had been "a pattern of legislative acquiescence." 790 F.2d at 917, *quoting* 598 F. Supp. at 851. Accordingly, said the Second Circuit, "in light of the long acceptance of the regulations, change is a matter for the legislative or executive branch and not the judiciary." 792 F.2d at 321.

VI. INTERNATIONAL STANDARDS, CONTEMPORARY ANTITRUST POLICY, AND TRADEMARK LAW SUPPORT THE LONG-STANDING CUSTOMS ADMINISTRATION OF SECTION 526

In determining why Congress would have left Section 526 "untouched" when it knew of Customs' construction of that statute, it is relevant to consider how foreign nations treat the same subject and how the Customs policy fits into our web of antitrust and trademark laws. Examination of all three subjects supports the Customs position.

A. Our Trading Partners Permit Parallel Imports

Parallel importation is permitted by virtually every foreign jurisdiction that is commercially significant. These foreign jurisdictions recognize that consumer prices are reduced by vigorous competition. The interpretation of American law applied by the court below would place this country at odds with the policies of virtually the entire free world and would grant foreign companies a kind of protection in the United States that American manufacturers are not granted overseas.

Most of the photographic equipment manufacturers who are challenging the Customs Service regulations governing parallel importation are headquartered in Japan. That country, however, does not entitle a trademark owner to prevent the importation or sale of authentic trademarked products manufactured by a foreign affiliate. Hence Japanese manufacturers are attempting by this lawsuit to obtain rights in the United States that Japan

is unwilling to give to American manufacturers doing business in Japan. In a 1970 decision involving American-made "Parker" pens, the Osaka District Court ruled that the Japanese trademark holder of "Parker" products could not bar others from importing genuine "Parker" pens into Japan because parallel importation encourages free competition and improves prices and services. *N. Mc. Co., Ltd. v. Schulyro Trading Co.* (*Parker Pen Cases*), 234 Henrei Taimuzo 57 (Osaka Dist. Ct. Feb. 27, 1970), *reported in English*, 16 *Japanese Ann. of Int'l L.* 113, 131-132 (1972). In 1972 the Japanese government issued a regulation under the Customs Duties Act authorizing importation of genuine trademarked goods if the domestic owner either holds the foreign trademark or should be considered the same entity as the foreign trademark owner. *See* Takamatsu, "Parallel Importation of Trademarked Goods: A Comparative Analysis," 57 *Wash. L. Rev.* 433, 442-43 (1982). Guidelines issued by the Fair Trade Commission of Japan actually declare it to be an unfair business practice to *hinder* parallel importation of goods. *Id.* at 443.

Parallel importation is also permitted by our European trading partners: Switzerland (*see Phillips A.G. v. Radio Import GmbH*, Judgment of October 4, 1960, Fed. Sup. Ct., 86 BG IV 119, 86 ATF II 270, *summarized in* 52 *Trademark Rep.* 140-41 (1962)); Austria (*see Agfa-Gevaert Gmbh v. Schark*, Judgment of Nov. 30, 1970, Sup. Ct.); the United Kingdom (*see Champagne Heidseick v. Buxton*, 47 Pat. Cas. 28 (1930)); West Germany (*see* Judgment of Jan. 22, 1964, 41 BGHZ 84, (Bundesgerichtshof), *summarized in English*, 54 *Trademark Rep.* 452 (1964)); the Netherlands (*see* Judgment of Dec. 14, 1956, Hoge Raad dev. Nederlander); and Sweden (*Skandinavisk Henkel Aktieselskab & Parfymeri Trading Aktiebolag v. Charasz, NJA 1967*). *See also Consumers Distributing Co., Ltd. v. Seiko Time Canada, Ltd., Supreme Court of Canada*, No. 16970 (June 21, 1984). *See generally* Koritz, "The Problem of Parallel Importation—A Comparative Study of Trademark Law in the United States and Sweden," 9 *N.Y.U. J. Int'l Law*

& *Pol.* 389 (1977); Derenberg, "Territorial Scope and Situs of Trademarks and Good Will," 47 *Va. L. Rev.* 733 (1961); Kitchin, "The Revlon Case Trade Marks and Parallel Imports (UK)", *Eur. Intell. Prop. Rev.* 86 (Mar. 1980).

In addition, the European Court of Justice, which enforces the European Economic Community's Rome Treaty, has repeatedly held that parallel importation is permissible unless the domestic and foreign trademark owners are completely independent. *See* Kemp, "The Erosion of Trademark Rights in Europe: Phase II," 69 *Trademark Rep.* 460 (1979). Finally, language in Principle D(4) of *The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices*, adopted by the United Nations Conference on Trade and Development, indicates an international consensus that restrictions on parallel importation are offensive. U.N. Doc. TD/RBP/CONF/10/Rev. 1, at 10-11 (1980).

Permitting distribution subsidiaries to exclude from the United States products that their foreign parents have introduced into commerce abroad plainly would allow them "to carry out a price discrimination program to the detriment of the United States consumer." Dam, "Trademarks, Price Discrimination and the Bureau of Customs," 57 *Trademark Rep.* 14, 18 (1967). No foreign country damages its own consumers so severely.

B. Antitrust Policies Do Not Support the Decision Below

The court of appeals' opinion asserts that since "prevailing antitrust doctrine has changed significantly" in the past 30 years (790 F.2d at 416); (Gov't Pet. App. 27a), multinational enterprises should now be permitted to engage in vertical territorial allocations and in fixing different prices for their products in different countries because restrictions on intrabrand competition

are no longer illegal *per se.*[25] In fact, a domestic manufacturer or distributor is still not permitted under the antitrust laws to establish exclusive selling territories for authorized retail dealers unless some benefit to consumers is shown to justify such a restraint.[26] *See Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 52, 55-57 (1977); *Eiberger v. Sony Corp. of America*, 622 F.2d 1068, 1075-1081 (2d Cir. 1980); *Muenster Butane, Inc. v. Stewart Co.*, 651 F.2d 292, 296 (5th Cir. 1981). Improvement in interbrand competition cannot, however, be reasonably predicted in the case of multi-national corporations. Since agents of such corporations who are outside the territorial limits of the United States can meet

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[25] The court of appeals misread the outcome of *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), that was vacated at the suggestion of the Solicitor General in 1958. 358 U.S. 951 (1958). The District Judge's discussion of the issues of statutory construction and of antitrust law were not repudiated in the Solicitor General's suggestion to the Supreme Court. Rather, the Solicitor General noted that the Customs Service had been persuaded to exclude the perfumes (apparently because Customs authorities were not aware of all facts relating to the interrelationship between the American trademark owners and the foreign manufacturers). See n.23, *supra.* It was not thought fair to proceed with an antitrust action against the corporations if there was government participation in their allegedly unlawful conduct. *See* Motion to Vacate Judgments, Nos. 24, 30, 31, October Term, 1958, p. 7. The Solicitor General continued to express the government's view "that trademark protection is not available to prohibit the importation of a product legitimately marked by an affiliate of the trademark owner," and stated the Executive Branch's intention to introduce clarifying legislation. *Id.* at 7-8. The legislation that was ultimately introduced went much further than the Solicitor General's suggestion, and it was never enacted.

[26] An American manufacturer of trademarked goods, seeking to establish a higher price in one part of the country than in another may still not institute trademark infringement actions in order to prevent sales by a dealer from the low-price market into a high-price market. *See, e.g., United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *see also Parkway Baking Co. v. Freihofer Baking Co.*, 154 F. Supp. 823, 825-26 (E.D. Pa. 1957), *aff'd*, 255 F.2d 641, 648-49 (3d Cir. 1958).

abroad and enter into anticompetitive arrangements with little concern over American antitrust enforcement, reduced intrabrand competition will not produce increased interbrand competition. Thus, the mere fact that *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), is no longer good law does not mean, *ipso facto*, that vertical territorial restraints are laudable or even lawful in every instance.

Recently the Federal Trade Commission's Bureaus of Competition, Consumer Protection and Economics filed joint comments with the Department of the Treasury ("FTC Comments") in response to its notice of June 17, 1986 (51 Fed. Reg. 22,005) soliciting comments on "gray market" policy options. The FTC Comments suggest that there would be serious anti-competitive effects if parallel imports were prohibited. First, if the current regulations were to be changed, anti-competitive agreements among manufacturers in foreign countries would be facilitated (FTC Comments at 9, n.11):

> If a foreign producer faces contractual (or political) obligations in its home market with respect to price or price and quantity, is producing at capacity, and faces a lag in adding new capacity, it may be forced to price discriminate against U.S. consumers.

Second, collusion among retailers and manufacturers might result (FTC Comments, at 12; footnote omitted):

> Imposition of geographic restrictions by manufacturers might conceivably stem from the insistence of colluding retailers or wholesalers who are seeking to raise their margins. By limiting intraband competition from gray market goods, across-the-board restrictions on gray market goods might therefore allow retailers or wholesalers to raise their margins for all brands in an industry . . . . Use of the Customs Service to police collusive agreements imposed by distributors would harm consumers and would not be an appropriate use of government funds.

In a 1971 letter to the Commissioner of Customs, which was part of the administrative record of the 1972 promulgation of 19 C.F.R. § 133.21, the Antitrust Divi-

sion of the Department of Justice explained why it then believed that a broad construction of Section 526 should be rejected on antitrust grounds (J.A. 72):

> [A]n American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such a rule would not protect the consumer from deception, since the goods would be of identical quality. Its only effect would be to raise prices by eliminating competition.

That analysis is valid today. If the Customs Service's policy is set aside, the government would enforce exclusive territories without any benefit to consumers.[27] Such a ruling would enable foreign manufacturers to fix exorbitant prices for the American market and to rely on the import law to suppress price competition.[28]

C. The Regulations Are Fully Consistent With Trademark Principles

The district court dismissed, for failure to state a claim, the plaintiff's suit under Section 42 of the Lanham Act, 15 U.S.C. §§ 1124, and the Court of Appeals did not reach the question whether the regulations were consistent with Section 42. It did indicate in *dicta*, however, an erroneous view of trademark law that may have af-

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[27] The FTC Comments reject the notion that a change in the regulations is necessary. First, the FTC Comments found several more plausible explanations than "free-riding" for the price differential between parallel imports and imports by U.S. trademark owners, including the manufacturer's own marketing strategy and collusion by manufacturers with retailers seeking to raise their profit margins. Second, they found that existing regulatory mechanisms are sufficient to protect consumers.

[28] There is ample evidence in the record of the significant advantages to consumers from policies permitting parallel importation. *See, generally,* Statement by 47th Street Photo, Inc. of Genuine Issues That Are In-Dispute. Consumer groups have uniformly advocated continuation of the regulations in issue. *See ,e.g.,* Brief of American Consumers in Support of Defendants, filed June 15, 1984.

fected its assessment of the regulations which were issued under the authority of both Section 526 of the Tariff Act and Section 42 of the Lanham Act.

Section 42 of the Lanham Act, 15 U.S.C. § 1124, provides that "no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this Act . . . shall be admitted to entry at any customhouse of the United States . . . ." COPIAT claimed that this statute affords protection from the unauthorized importation of goods bearing authentic trade-marks. The statute plainly applies, however, only to merchandise bearing counterfeit or unauthorized trademarks that "copy or simulate" genuine marks. The District Court so found.

In tracing the history of Section 526, the court of appeals seems to have taken a contrary view.[29] It stated that Justice Holmes' opinion in *Bourjois v. Katzel* adopted a "territoriality" theory of trademark which protects a trademark as a property right within each sovereign nation. 790 F.2d at 909 (Gov't Pet. App. 13a). But Justice Holmes himself repudiated such a broad view of *Katzel* in the very next Term of Court. In *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 366-67, 369 (1924), the Supreme Court reversed an injunction that had been granted against a seller of genuine parallel import perfumes. The plaintiff's argument based upon the Trademark Act and *Katzel* was summarily dismissed

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[29] The panel relied on a one-sided student Note, 54 *Fordham L. Rev.* 83 (1986), cited at 790 F.2d at 910 (Gov't Pet. App. 14a). The Note's view of the law is contrary to the weight of scholarly authority in this area. *Compare*, Lipner, "The Legality of Parallel Imports: Trademark, Antitrust, or Equity," 19 *Tex. Int. L. J.*, 553 (1984); Atwood, *supra*, pp. 35-36; Dam, "Trademarks, Price Discrimination and the Bureau of Customs," 57 *Trademark Rep.* 14 (1967); Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem," 49 *Trademark Rep.* 707 (1959); Note, 17 *L. & Pol. in Int. Business* 177 (1985); Note, 35 *Maine L. Rev.* 315 (1983); "Developments in the Law: Trademarks and Unfair Competition," 68 *Harv. L. Rev.* 814, 913-920 (1955); Note, 64 *Yale L. J.* 557 (1955).

by the Court. Justice Holmes wrote (264 U.S. at 368, citations omitted):

> A trademark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. *There is nothing to the contrary in* [*Katzel*]. There the trademark protected indicated that the goods came from the plaintiff in the United States, although not made by it, and therefore could not be put upon other goods of the same make coming from abroad. *When the mark is used in a way that does not deceive the public, we see no such sanctity in the word as to prevent its being used to tell the truth.*

The court of appeals ignored *Prestonettes* and thus misunderstood *Katzel.*

The court of appeals was similarly wrong when it said that Congress "enshrined" into law the "territoriality" theory when it passed Section 526. 790 F.2d at 910 (Gov't Pet. App. 14a). The court's citation for this proposition is the Conference Report, H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922):

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trade-mark . . . .

What is missing from this quote is the end of the sentence: "in order to protect the American manufacturer or producer." *Id.* The significance of this omission is plain. It qualifies the intent of the statute, which was not to create an American monopoly in all trademarks, but to protect an independent arms-length purchaser of a U.S. trademark from fraud perpetrated by the foreign seller.

As noted above, *supra*, p. 38, when Congress passed the Lanham Act, it was fully informed that Customs

understood trademark law to hold that a genuine good could not infringe and, thus, that goods bearing foreign and domestic trademarks owned by related parties could not infringe each other. In accordance with this Congressional approval, after Section 42 replaced Section 27 of the Trade-Mark Act, the Bureau of Customs continued to allow the parallel importation of genuine trademarked merchandise produced abroad by a foreign company affiliated with the American trademark owner. *See generally* Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301 (1969). *See also* Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem," 49 *Trademark Rep.* 707, 712 (1959).

There is nothing to the contrary in *A. Bourjois & Co. v. Aldridge,* 263 U.S. 675 (1923) (*per curiam*). The plaintiffs in this case have argued that the *Aldridge* decision created a gloss that was carried over into Section 42 of the Lanham Act and that it extended the reach of the law beyond counterfeits. In fact, however, *Aldridge* was only a response to the same equities as were presented in *Bourjois v. Katzel. See* n. 15, *supra.* As the court in *Olympus* noted, the position advocated by the plaintiffs "puts a great deal of strain on a one-sentence *per curiam* opinion announcing a decision, to which the opposing party did not object, based on the reasoning of a three-page opinion in [*Katzel*], a case influenced by equities not present here". 792 F.2d 321.

Moreover, the Customs regulations that followed *Bourjois v. Aldridge* made it clear to the world that the practice Customs was following after 1923—when the Supreme Court decided *Bourjois v. Katzel* and Congress enacted Section 526 of the Tariff Act—was limited to the *Bourjois v. Katzel* situation. Customs' published policy was that merchandise would be excluded only when the rights of an independent American trademark owner were being infringed because the American company was not associated with the foreign producer of merchandise

bearing the trademark. After the Supreme Court held in *Bourjois v. Katzel* that American trademark rights included, in such situations, the right to prevent importation and distribution of authentic goods, and after Congress enacted Section 526 (which the Solicitor General quoted, in full, in his *Bourjois v. Aldridge* memorandum), the Customs Service was legally obligated to exclude goods with authentic trademarks produced by a foreign manufacturer who was not affiliated with the American trademark owner.

While implementing this policy, the Customs Service also issued regulations expressing the negative—*i.e.*, clarifying that the words "copy or simulate" in Section 27 of the 1905 Trade-Mark Act would *not* reach cases in which the American trademark owner has authorized use of the trademark by a foreign manufacturer. Hence the only "*Aldridge* gloss" that Congress could have had in mind in 1946 was one that *excluded* authorized authentic trademarks from the meaning of "copy or simulate" as used in Section 42.

Recent decisions of the lower courts have reached the same conclusion as to the scope of Section 42. In *Olympus*, the court held that except where the equities of *Katzel* are presented, Section 42 bars the importation only of goods whose trademarks "copy or simulate" genuine trademark. 792 F.2d at 321. *In Lever Brothers Company v. United States*, No. 86-3151 (D.D.C. filed Jan. 27, 1987), the district court denied a preliminary injunction to a multinational corporation which had sought to prevent the parallel importation of products that it introduced into commerce in Britain. In *American Honda v. Carolina Autosports Leasing & Sales*, 645 F. Supp. 863 (W.D.N.C. 1986), the district court refused to enjoin the importation of genuine Honda automobiles. *Accord, Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054, 1058 (9th Cir. 1983); *DEP Corp. v. Interstate Cigar Co.*, 622 F.2d 621, 622 n.1 (2d Cir. 1980); *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983).

Finally, just as our trading partners do not prohibit parallel imports as a matter of trade policy, they have not adopted the concept of trademark urged upon the courts by the plaintiffs. For example, in 1985, La Chemise LaCoste, a French company that manufactures sportswear, and its Japanese exclusive trademark holder, asked the Japanese courts to enjoin the parallel importation into Japan of U.S.-produced LaCoste shirts. The court held that because the American trademark holder, Izod, manufactured and trademarked the apparel with the permission of La Chemise LaCoste, the imported products did not prejudice the functions of trademark: identification of origin and guarantee of quality. The court dismissed the claim. 48 *Antitrust and Trade Reg. Rep.* 225 (1985).

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be reversed and the District Court's judgment dismissing the complaint should be reinstated.

Respectfully submitted,

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APPENDIX

APPENDIX

STATUTES & REGULATIONS INVOLVED

Section 201 of the Customs Court Act of 1980, 94 Stat. 1728, 28 U.S.C. § 1581 provides, in pertinent part:

(a) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.

* * * *

(h) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review, prior to the importation of the goods involved, a ruling issued by the Secretary of the Treasury, or a refusal to issue or change such a ruling, relating to classification, valuation, rate of duty, marking, restricted merchandise, entry requirements, drawbacks, vessel repairs, or similar matters, but only if the party commencing the civil action demonstrates to the court that he would be irreparably harmed unless given an opportunity to obtain judicial review prior to such importation.

(i) In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section and subject to the exception set forth in subsection (j) of this section, the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for—

(1) revenues from imports or tonnage;

(2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other than the raising of revenue;

(3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or

(4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section.

Section 526(a) of the Tariff Act of 1930, 46 Stat. 741, as amended by the Customs Procedural and Simplification Act of 1978, 82 Stat. 888, 19 U.S.C. § 1526(a) provides:

Importation Prohibited.

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

Section 133.21 of Title 19 of the Code of Federal Regulations published on October 3, 1972, 37 Fed. Reg. 20678, provides in relevant part:

§ 133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or

is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner; . . .